

# WHAT IS SWIFT? WHY THIS BANKING SERVICE COULD BE A BIG WEAPON AGAINST RUSSIA

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SWIFT - Society for Worldwide Interbank Financial Telecommunication - acts as the Gmail of global banking services.

As Russia invades Ukraine, the talks of banning Russia from SWIFT become a prominent talking point, as part of the West-induced sanctions. The United Kingdom and European Union have been reluctant about launching this Minuteman missile-like sanction against Russia. In this article, Livemint elaborates on why SWIFT is so important for international banking. And why cutting off Russia's access to Swift may prove a dampener for the West's own economic interests.

For starters, this is not the first time [Russia](#) is being threatened to be barred from SWIFT. The US had called for Russia to be cut off from Swift after Moscow's annexation of Crimea in 2014.

## What is SWIFT?

SWIFT - Society for Worldwide Interbank Financial Telecommunication - acts as the Gmail of global banking services. It was founded in 1973 to end reliance on the telex system, an international system used especially in the past for sending written messages.

[SWIFT](#) delivers secure messages among more than 11,000 financial institutions and companies, in over 200 countries and territories.

Swift delivers an average of 40 million messages a day that includes orders and confirmations for payments, trades and currency exchanges.

It is a member-owned cooperative, based in Brussels, the capital of Belgium.

## What's so crucial about SWIFT?

The crucial role of SWIFT can be determined by the fact that when some Iranian banks were cut off from SWIFT in 2012, Iran's oil exports plummeted sharply from more than 3 million barrels a day in 2011 to about 1 million barrels a day a few years later.

When Russia was threatened to be cut off from SWIFT in 2014, Alexei Kudrin, Russia's former finance minister, warned about a potential GDP contraction of 5% due to such a move. Although, the sanction never came into realisation. Russia accounted for 1.5% of total transactions on Swift in 2020.

## When SWIFT comes into action?

SWIFT doesn't hold deposits. It's overseen by the National Bank of Belgium and representatives from the U.S. Federal Reserve System, the Bank of England, the European Central Bank, the Bank of Japan, and other major central banks.

Swift would bar countries or entities only if the EU passes a sanction. SWIFT has 40% of its payment flows in US dollars.

## Is there an alternative to SWIFT?

Since 2014, Russia has run its own financial messaging system for Russian and foreign banks. It has developed an alternative messaging system called SPFS (Financial messaging system of the Bank of Russia) which handles about a fifth of domestic payments. It has only 400 users. "This is a reliable and secure channel for sending electronic messages on financial transactions," Russia's central bank says in a note.

## Why EU is reluctant?

To put it plainly, the EU is cautious due to its dependence on Russia for oil and gas. The EU relies on Russia for around 40% of gas needs.

Russian politicians have warned that without payment, the flow of gas and oil would quickly stop. But some European lenders are nevertheless scaling back exposure to Ukraine and Russia is a threat to the credit lines essential to trade.

Brent crude climbed around 3% after surging above \$105 a barrel at one point in Thursday's dramatic trading.

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